

STRATEGY & MANAGEMENT

Retail banking practice

# **Regulation and remittances: WERO's role in compliance with international standards**

The main challenge in regulating remittances is securing transfer systems while balancing transparency, costs and innovation.

*by Daniel Chanel Mouzita*



The remittance market in Europe is a dynamic sector that plays a crucial role in the French and European economy. Knowing that for Eastern European countries, remittances represent a significant share of GDP, unlike Western and Central European countries.

Europe is both a major sender and receiver of remittances, with billions of euros transferred each year. These financial flows contribute significantly to the GDP of receiving countries, often stabilizing developing economies.

The European remittance market is composed of diverse players, including banks, traditional money transfer agencies such as Western Union and MoneyGram, and new fintech entrants that offer innovative and often lower-cost digital solutions.

This diverse market composition has driven the sector to rapid evolution with the adoption of digital technologies, such as mobile apps and cryptocurrencies, which facilitate faster transfers and reduce costs for end users.

In this ecosystem, regulation plays and must continue to play a crucial role in the management of money transfers (from individual to individual or from individual to professional) in order to ensure their safety and efficiency. Indeed, regulation is essential to ensure the security of transactions and maintain consumer confidence. It ensures that operators comply with strict standards, protecting consumers' funds against fraud and abuse.

Similarly, regulation promotes transparency of prices and services,

ensuring consumers understand the associated costs and compare different options. It also prevents unfair practices, encouraging healthy competition which can lead to reduced service costs.

In addition, it ensures that institutions involved in financial transfers adhere to strict security standards. This protects consumers from fraud, identity theft, and other illicit activities. Compliance measures such as anti-money laundering (AML) and counter-terrorist financing (CTF) are established to monitor suspicious transactions and prevent illicit activities. They encourage responsible innovation, ensuring that new technologies and transfer methods are secure and benefit consumers without compromising security.

## **Employee autonomy**

The main challenge in regulating remittances is securing transfer systems while balancing transparency, costs, and innovation. These challenges are crucial to optimizing the positive impact of remittances on local economies and ultimate beneficiaries.

**Security and integrity of the financial system.** Through efficient regulation, the aim is to help prevent money laundering and terrorist financing by imposing rigorous verification protocols. This protects the remittance chain against fraudulent use.

**Transparency and information.** The rules require transfer service providers to clearly disclose fees, exchange rates and processing times.

This transparency allows senders and recipients of funds to make informed choices.

**Reduction of transfer costs.** By quite often encouraging competition between providers, regulation has the effect of reducing the (often) high costs of remittances, which can weigh heavily on end users.

**Access to financial services.** Regulations can promote financial inclusion by integrating unbanked populations into the formal financial system, which is crucial in many developing countries.

**Consumer protection.** Regulation helps ensure that consumers' rights are protected in money transfers, with clear remedies in the event of disputes or poor service.

**Technological innovation.** In addition to consumer protection, regulation must enable technological innovation, such as the use of fintech and blockchain, which can make transfers faster, cheaper and more secure.

**Compliance and regulatory cost.** Providers must navigate sometimes complex international and local regulatory requirements, which can increase their operational costs. The complexity of these requirements can also stifle innovation.

**International collaboration.** International coordination is needed to harmonize regulations across countries, as remittances often cross multiple jurisdictions. Global initiatives can help create a common framework to facilitate these transfers.

## **What are the challenges facing remittance companies in meeting international standards**

**Regulatory complexity.** Businesses must navigate a complex mosaic of regulations that vary from country to country. This includes the need to understand and comply with local, national and international laws that can sometimes be conflicting or rapidly changing.

**Cost of compliance.** Meeting these standards requires substantial investments in compliance systems, staff training and monitoring technologies. For small remittance businesses, these costs can represent a significant financial burden.

**Customer identification and verification (KYC).** Implementing robust Know Your Customer (KYC) procedures can be challenging, especially in regions where standard identity documents are not widely used or available.

**Monitoring and reporting.** Transaction monitoring and suspicious activity reporting requirements require recorded systems and processes to detect and report unusual activity. This can be technically complex and costly to manage.

**Technological risks.** With rapidly evolving technologies, it is essential to stay up to date and develop capabilities to manage digital risks, such as cybersecurity and data protection.

### **Training and awareness.**

Continuous training of staff is crucial to ensure proper understanding and implementation of AML/CFT policies. A lack of awareness can lead to costly errors or non-compliance.

### **Banking Relationship**

**Management.** Remittance businesses often face challenges in establishing and maintaining banking relationships as banks may be reluctant to offer their services due to perceived AML/CFT risks, leading to “derisking” issues.

### **Adoption of cutting-edge**

**technologies.** New technologies such as blockchain and artificial intelligence offer new opportunities to improve compliance, but integrating them effectively can be a challenge.

**International cooperation.** Working with international partners to ensure global compliance throughout the transfer chain can be complex and requires close coordination.

### **Confronting fraud and illegal**

**activities.** Identifying and preventing innovative money laundering and terrorist financing methods that use remittance systems is an ongoing task requiring constant vigilance.

Remittance companies must adopt strategies that integrate advanced technologies, improve their processes and maintain rigorous training to overcome these challenges and ensure their compliance with AML/CFT standards.

## **WERO: a mission focused on regulation and compliance**

WERO, or Western European Remittance Organization, is a major organization in the Western European remittance sector. Launched in 2024 by a consortium of 16 European banks and financial service providers, it plays (will play) a crucial role in facilitating and regulating cross-border financial flows within the region.

Its main mission is to facilitate safe, efficient and affordable remittances in Western Europe. This mission is broken down into key objectives, including:

- Harmonize remittance practices among member countries
- Reduce transfer costs for consumers
- Promote financial inclusion
- Combat money laundering and terrorist financing

### **Compliance Initiatives: What programs and tools does WERO provide to its members to help them comply with international regulations**

#### **Guidelines and best practices.**

Provide detailed guidance and best practices on key regulatory aspects such as anti-money laundering (AML) and counter-terrorist financing (CTF).

**Training and awareness.** Conduct training workshops and seminars to educate members on new regulations, compliance requirements, and transaction monitoring techniques.

**Compliance Technology Tools.**

Offer tools and software that automate compliance processes, such as identity verification (KYC) and transaction monitoring solutions to detect suspicious activity.

**Reporting support.** Provide reporting templates and systems to help members meet reporting requirements to local and international regulators.

**Conformity assessments.**

Implement audit services or compliance assessments to identify gaps in members' systems and processes, and provide recommendations to address them.

**Information sharing and networking.** Facilitate the sharing of information on emerging compliance trends, and organize networking sessions to exchange experiences among members.

**Regulatory alerts.** Provide regular updates on regulatory changes through newsletters or online platforms, enabling members to stay informed of relevant legal developments.

**Partnerships with regulators and experts.** Partner with regulators and experts to provide tailored advice and arrange consultations on complex compliance issues.

**Documentary resources.** Provide a library of resources including white papers, case studies, and analyses on regulatory compliance and process efficiency.

These programs and tools would aim to strengthen members' ability to navigate a complex regulatory environment and ensure compliance effectively. This would help secure remittance operations and build confidence in the overall financial system.

## Challenges and future prospects

**Regulatory developments: what future for regulation in the remittance sector and how WERO is preparing to adapt its strategies.** The future of regulation in the remittance sector is evolving, influenced by several key trends and developments. Here are some perspectives on where regulation in this area could go.

**International harmonization.** With the increase in remittances, there is increasing pressure to harmonize regulations internationally. This could facilitate compliance for remittance service providers operating in multiple countries by defining common regulatory standards.

**Technology and innovation.**

L'adoption de nouvelles technologies, telles que la blockchain et l'intelligence artificielle, entraînera des ajustements réglementaires. Les régulateurs devront s'adapter aux nouvelles méthodes de transfert de fonds et aux innovations qui améliorent la sécurité, la rapidité et la transparence des transactions.

**Strengthening AML/CTF standards.**

Anti-money laundering and combating the financing of terrorism will remain a major priority. Regulations are expected to become stricter regarding transaction transparency and customer verification, while integrating technological tools to monitor suspicious activities.

**Focus on financial inclusion.**

Regulation could evolve to encourage financial inclusion, aiming to reduce transfer costs and facilitate access to remittance services for the unbanked. Policies could incentivize companies to offer solutions tailored to low-income customers.

**Adapting to economic changes.**

Economic and health crises, such as the COVID-19 pandemic, have highlighted the need for flexible regulations that can quickly adapt to changing circumstances to ensure the continuity of remittance services.

**Progress in consumer protection.**

Regulations could focus more on consumer protection, ensuring customers understand fees, exchange rates and transfer times. This includes requirements for transparency on fees.

**Sustainability and social responsibility.**

In the future, environmental and social considerations could also influence regulations, pushing companies to adopt sustainable practices in their operations.

**Collaboration between regulators and the private sector.** Increased collaboration between regulators,

policymakers, and private sector actors can help develop solutions that balance security, innovation, and accessibility of remittance services.

In summary, the future of regulation in the remittance sector will move towards greater harmonization, increased technological integration, and a focus on consumer protection, while promoting financial inclusion and addressing emerging market challenges. These developments aim to create a safe, efficient and accessible remittance environment for all.

**How WERO plans to innovate its approaches to continue supporting compliance in the face of increasingly strict regulations**

**Adoption of advanced technologies.** WERO could promote the use of technologies such as blockchain, which offers increased traceability and transparency of transactions, thereby facilitating compliance with regulatory requirements on transaction monitoring and reporting.

**Development of compliance platforms.** Create integrated software platforms that help members manage their compliance obligations, such as KYC (Know Your Customer) and AML (Anti-Money Laundering) checks. This could include data analytics tools to identify suspicious transactions.

**Training and awareness.** WERO could organize continuing education programs for its members, allowing them to stay informed of regulatory developments and best practices in compliance. Webinars, workshops and certifications could be offered.

**Collaboration with regulatory agents.** Establish partnerships with local and international regulators to share knowledge, anticipate regulatory changes, and participate in discussions on the formulation of policies that affect the sector.

**Industrial standards initiatives.** WERO could work to develop standards and best practices for the remittance industry, helping members ensure they adopt methods that comply with current regulations.

**Compliance assessment and audit.** Establish audit or assessment services to help members measure their level of compliance and identify areas requiring improvement.

**Feedback and best practices.** Facilitate a forum to share experiences and best practices among members, promoting collective learning on compliance and innovation.

**Communication and information solutions.** Develop effective communication channels to promptly inform members of new regulations, changes, and relevant updates.

**Pilot projects with FinTech innovations.** Collaborate with FinTech startups to test new technology solutions that can better

meet compliance requirements while improving the efficiency of remittance services.

**Promoting financial inclusion.** By supporting initiatives that improve access to remittance services for unbanked populations, WERO could also design approaches that meet compliance requirements while ensuring greater reach.

By implementing these innovative approaches, WERO can support its members in an increasingly complex regulatory environment and ensure effective compliance, while strengthening public trust in remittance services.

In a constantly evolving remittance sector, characterised by increasingly stringent regulations and increasing technological challenges, it is essential for companies to remain vigilant and proactive. Actively engaging with the Western European Remittance Organisation (WERO) is an opportunity for companies wishing to ensure their compliance and effective adaptation to future changes.

In an environment where remittance regulation is increasingly complex, actively engaging with WERO is essential for companies that want to not only comply with current standards, but also thrive in the sector. By investing in this collaboration, companies can benefit from strategic support, ongoing training, and a learning community that will help them successfully navigate future challenges.

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